



Strategic action of the Development Banking System

Facing current challenges in a world of permanent uncertainties requires strengthening the action capabilities of development banks, the design of innovative instruments for the financing and funding of these institutions, as well as their management practices, transparency, measurement of impact.

Since 2020, for the past five years, more or less --over a very short period of time, but a very intensive one because of the events that have taken place-- we have been witnesses to the confluence of three simultaneous crises: economic, environmental and health-related. This situation led us to reconsider many concepts and to ask ourselves several questions concerning development and the actions taken by development finance institutions in Latin America and worldwide.

These events have set off an upsetting global upheaval, leading to the adoption of varying trends in social behavior. By way of example, we have the digitalization of production, the energy transition, the intensive use of digital means of payment --in other words, process digitalization-- that did not fail to affect development banks; greater environmental awareness; the reconsideration of logistic chains and value chains, and production nearshoring as a means for prompting investment. Interest also arose in health research and strategic sectors for development were revalued and reconfigured.

The situation is unusually noteworthy in the area of economic protection. Unprecedented industrial protection measures can be seen, particularly in the developed or better positioned economies, that are growing day-by-day.

At the same time, a series of challenges have loomed for countries of the region. Aspects like resource mobilization to bolster investment in productive and socially resilient infrastructure, infrastructure for digital access, support for employment generating activities, support for SME recovery, the economic empowerment of women and development of entrepreneurs, promotion of new and innovative investments by the nearshoring /regionalization of enterprises in international value chains; the boosting of agricultural and rural development, deepening of financial inclusion, climate investment mobilization, support for technological development and innovation in enterprises all are to be found within the sphere of operation of development banks.

All of these changes, together with the incorporation of sustainable practices making it necessary to create financial products that fulfill environmental, social and governance (ESG) criteria, demand that states and development banks play an active and decisive role in the capacity for, on the one hand, participating in public policy design and formulation and, on the other, providing the necessary coaching to ensure that those policies are able to confront the major financial and non-financial challenges, programs and projects appropriately.

The above entail major challenges for the states and their institutions, among them their development banks, which, by their very reason for existing, must finance projects that are slow to mature or more risky for smaller enterprises, activities or new products that are relatively unknown in the financial market; distant towns or territories that do not have access to financial facilities and, in general, meet the demand for financing activities, sectors and territories that are potentially economically and socially profitable, and identify business opportunities and orient states as to their development financing policies.

TRENDS, CHALLENGES AND OPPORTUNITIES

These are just some of the key elements that are redefining the future of the global economy and in regard to which

The incorporation of sustainable practices making it necessary to create financial products that fulfill environmental, social and governance (ESG) criteria

development banks can play a major role. Below are some ideas focusing on public LAC development banks.

Economic development should be sustainable and inclusive. The negative effects of the climate crisis and the existing gap in financing make it necessary to intensify efforts to facilitate energy transition processes by developing markets and ecosystems for financing green technology and sustainability practices.

Prioritizing social and financial inclusion is a key goal that development banks can achieve through the use of different strategies, as follows: by playing 1) a counter-cyclical role during crisis situations; 2) designing specific financing policies and instruments to meet the needs of vulnerable groups and disadvantaged sectors; 3) developing financial intermediaries more willing to provide banking services to new customers; and 4) establishing financial markets in areas where they do not exist, particularly to make them more accessible to lower-income groups, small enterprises and subnational governments.

Technological advances and digital transformation, including the use of tools like artificial intelligence, will bring about more rapid change in the production sector and offer opportunities for improved financial inclusion. In this case, we can consider the participation of development banks from two perspectives. The first, in regard to internal process digitalization in the institutions, to make their operations more efficient, upgrade the economies of scale and broaden financial inclusion by offering customers new solutions and platforms, and the second, the external outlook, which means financing the technological development of enterprises and entrepreneurs by enabling them to enhance their levels of productivity and create new business models.



Financing innovations and supporting knowledge generating and dissemination practices will boost the creation and development of ecosystems and clusters in new industries. Development banks can encourage the creation and development of new industries and enterprises by designing instruments to support startups and entrepreneurs, using innovative venture capital systems, incubators or accelerators in industries that could join value chains in rapidly changing sectors or those requiring the use of new materials and where no financial assistance plans exist.

Cooperation with the private sector and other economic agents with similar aims maximizes the impact on development. Financing, whether public or private, is obviously insufficient of itself to finance the transformation of our economic structure. Confronted by this challenge, development banks in countries with a network of development institutions and other public and private agents that pursue similar objectives can produce shared solutions for leveraging resources and synergetic relationships that will make it possible to maximize the use of their capital and the impact of their efforts.

Trade nearshoring and its regional integration will continue to open up opportunities for attracting new investments and improving our economic positioning. Development banks, particularly those with mandates to promote foreign trade, can join in the major trends in regional integration and nearshoring of production that we will continue to see in coming years.

In discussing infrastructure finance, we cannot fail to point up the importance and urgency of this theme at the national and global levels, particularly in the developing countries. From a regional perspective, four main challenges or goals can be identified in regard to development bank long-term and infrastructure finance, as well as in regard to finance and capital markets: boosting a stronger and broader-scope impact of the sustainable development goals; transition towards a low carbon economy; mobilization of private resources, inasmuch as public funds are insufficient due to fiscal restrictions, and the need for long-term financing, which means optimizing the relationship between the public and private sectors by means of innovative financial mechanisms.

Gender inclusion. In LAC, roughly 23% of the MSMEs are led by or belong to women, but suffer from significant shortages in financing, estimated at US\$91,000 million. These shortages, however, also offer opportunities, given that women are known to have a better credit record and financial institutions that offer programs specifically designed for women can add to their portfolios without increasing their risk.

Although some other specific trends and scenarios exist on a country-by-country basis, we can stress that in the scenario described, development banks can turn the existing challenges into opportunities for development.

In order to do so properly, on the other hand, the region's development banks must take a more agile and proactive approach than in the past. As very few times in development banking history, there now exists a global development agenda that offers us a frame of reference for positioning our institutions strategically within the major global development financing trends. This, combined with the advances made in banking regulation and supervision, as well as its internal governance and in its principles of sustainability and responsible banking, make these development institutions a powerful public policy instrument. We can justly declare, without any danger of mistaking the situation, that this juncture marks the beginning of a new era for the region's development banking system.

These are just some of the various aspects that should be considered in regard to development bank management.



The programs, instruments and types of projects on which it should focus are more closely related to its function per se --in short, its relations with its customers. We are now going to refer briefly to some others, more closely attuned to the internal part of the organization and its relations with other entities or interest groups.

Here, we have:

- **Human talent.** This is highly important. How can we ensure the continuity of the human talent that is being trained and avoid its rotation and permanent changes, not for technical reasons, but those of another nature. Development bank human resources should have a highly unique way of thinking that is development-oriented, with finance being a means, an instrument for achieving development.
 - **Relationship and cooperation.** Much knowledge and learning can be found in the local financial ecosystem, and in the international sphere, in regional and multilateral agencies and financial organizations, and development banks from other regions, from which to learn without having to start from zero when something new or different is to be done in one's own country or financial resources or technical cooperation are to be mobilized.
- These are just some ideas that reflect the importance and role of development banks at a time when LAC has the opportunity to change its course of development towards a more inclusive growth model, with more sustainable investment and consumption patterns. This is taking place at a time in history known for rapid technological change that is producing a disruption in almost all industries through the emergence of new business models that entail challenges and opportunities that the region's countries should take advantage of for the benefit of their development.

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